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SUBJECT: SHENZHEN METRO'S EXPANSION PLANS ON TRACK

¶1. (SBU) Summary. The Shenzhentong, a smart card used to pay for public transportation much like Washington's SmarTrip, is proving quite popular with Shenzhen commuters, gaining 10,000 new cardholders each day. Already in use at all metro stations, Shenzhentong is now working to expand its aboveground coverage, from its current 40% to 70% of all buses and taxis. Meanwhile, negotiations are underway with retailers, financial institutions, universities and government departments to allow wider use of Shenzhentong cards, following the model of neighboring Hong Kong's Octopus. At the same time, Shenzhen Metro is also expanding its core business of running subway lines. Currently, Shenzhen Metro's network is very limited, and mainly focused on providing access to and from the border crossings with Hong Kong. However, ongoing and planned projects should improve connections between points in the city, as well as between Shenzhen, Hong Kong and other points in the Pearl River Delta. End summary.

¶2. (U) On May 25, EconOffs visited Shenzhen Metro Corporation and met with General Manager Shi Yousheng, to discuss the expansion of both the Shenzhentong smart-card system and the city's subway network. Also present at the meeting were Senior Engineer Zhang Ming, manager of Shenzhen Metro's programming, planning and statistical department; and Shenzhentong General Manager Jia Jungang. Shenzhentong was set up to develop the smart card project Shenzhen Metro and three other companies, including Shenzhen Bus Group, the city's largest bus company.

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SHENZHENTONG: Shenzhen's SmarTrip  
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¶3. (U) Shenzhentong is Shenzhen's answer to Washington's SmarTrip, with which most of our readership is probably familiar. (Note: 'Tong' means "to communicate" or "to connect" in Chinese. Its official English name is Shenzhen TransCard. End note.) Both are rechargeable cards that allow the user to pay for various modes of public transportation, facilitating seamless transfers between them. By late May, approximately 620,000 Shenzhentong cards had been issued, and the number is growing by 10,000 new cards each day. The company expects to issue two million cards by the end of the year, far surpassing its initial estimate of 1.5 million. Approximately 500,000 Shenzhentong transactions are carried out each day. Shenzhen Metro collects an average of about 210,000 subway fares a day, of

which 80-90,000 are paid with Shenzhentong cards.

14. (SBU) Shenzhentong is also working with the city's 42 aboveground public transport companies to expand the system's coverage from 40% to 70% of all buses and taxis. On average, 120,000 bus fares are paid for each day with a Shenzhentong card, out of a total of some 3.36 million. According to a recent press report, 1,700 of the city's public buses are equipped with Shenzhentong readers. Meanwhile, only 100 of the city's estimated 12,000 taxis have readers, but the company expects half of the 2,000 new taxis that will enter service in Shenzhen by the end of 2006 will have readers.

Hong Kong's inspiration: One card fits all  
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15. (SBU) Given Shenzhen's proximity to Hong Kong, it is safe to assume Hong Kong's Octopus smart card system has been the main inspiration for the Shenzhentong, if not the whole metro system. Metro stations in Shenzhen are very similar to their Hong Kong counterparts in terms of design and layout, and even the Shenzhen Metro logo is almost identical to that of MTR, the company that runs Hong Kong's metro. Therefore, it is not surprising that Shenzhen Metro is seeking to expand usage of Shenzhentong in some of the ways that have made Octopus one of the most successful electronic cash systems in the world.

16. (SBU) Shenzhentong is already discussing with financial institutions the possibility of integrating bankcard and credit card functions into Shenzhentong cards. It has also contracted with newspaper groups to install readers on vending machines, and is negotiating with McDonald's and 7-

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Eleven to install point-of-sale (POS) readers at their stores. Eventually, the company hopes that many of the various identity cards currently used by Shenzhen residents, e.g., student and disability cards, will be integrated into their Shenzhentong cards.

One Country, One Card  
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17. (SBU) Shenzhentong and Octopus both hope to make their systems interoperable, but progress has been slow. Jia estimated that interoperation could take place by December 2006, but Shi quickly dismissed that suggestion aside, instead providing a more modest estimate of 2010. Making the necessary adjustments to all the readers is a daunting task. In Hong Kong alone there are 40,000 Octopus card readers, and there are several thousand Shenzhentong readers in Shenzhen, according to Jia. Additionally, both sides still need to devise a sensible plan to deal with fluctuating exchange rates between their two currencies.

Hong Kong takeover?  
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18. (SBU) Shenzhen Metro officials did not appear particularly excited about the plans for interoperation. In fact, both Shi and Jia suggested that it is basically Hong Kong's MTR that is pushing for it, in anticipation of its coming incursions into Shenzhen. Last year, MTR reached an agreement with the Shenzhen government to construct an extension to Line 4, and to operate the entire length of the line once completed, including the part currently operated by Shenzhen Metro. MTR also signed agreements to invest in the construction of lines 2 and 3. Moreover, according to Jia, it is the Hong Kong side that has slowed down progress on interoperation, demanding "too many" technical specifications just to skew the bidding process in favor of a Hong Kong company.  
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## EXPANSION PLANS: Much needed

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¶9. (SBU) Shenzhen Metro currently operates two metro lines: Line 1 and Line 4. Significantly, both existing lines have terminals on the Hong Kong border, at the Luohu and Huanggang crossings, respectively. Huanggang is only a vehicle crossing at this point, but Hong Kong's KCR is expanding its rail system to Lok Ma Chau, across from Huanggang on the Hong Kong side. There is already a KCR station across the border from Luohu (Lo Wu in Cantonese). Most of Shenzhen Metro's rolling stock is designed by Canada's Bombardier, and made by a joint venture between Bombardier and the Changchun Railway Vehicles Company. It also operates some cars made by a joint venture between Germany's Siemens and Shanghai Metro.

¶10. (SBU) This current network is quite limited, given Shenzhen's huge sprawl. Areas east of Shenzhen's traditional downtown near Luohu are not served at all by the existing lines, and neither is Shekou, a prosperous district favored by local expats, whose ferry terminal offers direct connections to Hong Kong, Macau and Zhuhai (including services to Hong Kong International Airport (HKIA) that allow the passenger to check-in at the ferry terminal and proceed to his flight without submitting to Hong Kong entry formalities). Shenzhen's own Bao'an Airport is also not served.

But help is on the way

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¶11. (SBU) Shenzhen Metro expects the extension of Line 1 to Shenzhen's airport to be completed in 2008. This direct connection to the Luohu crossing should help boost the airport's already significant Hong Kong-originated passenger base. Meanwhile, construction on Line 2 is expected to conclude in 2010. This line will run from Line 1 to Shekou and its ferry terminal. Passengers will also have the option of traveling on to Hong Kong via the Western Crossing, a bridge from Shekou to Hong Kong's New Territories. Moreover, General Manager Shu said that

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"[they] hear" MTR is planning to build a metro line connecting Hong Kong and Shenzhen airports. According to Shu, the new line would be built to support existing plans to move all of HKIA's China-bound flights to Shenzhen Airport.

Out to the sticks

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¶12. (SBU) The undergoing expansion of Shenzhen's metro system should also help Longgang and Bao'an, the two Shenzhen districts that are not part of the Special Economic Zone (SEZ), and that have consequently largely missed out on Shenzhen's growth bonanza. Line 3, which is expected to be finished by 2009, will connect the Futian and Luohu districts with Longgang, with 13 stations outside the SEZ. Bao'an, for its part, will benefit from the extension of both lines 1 and 4 to new terminals in Bao'an, at the airport and Longhua Township, respectively.

And then more

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¶13. (SBU) Looking ahead, Shenzhen Metro plans to start building Line 5 in 2007, and hopes to also start construction on Line 8 during that year. Line 5 will run in an arc across the north of the city, connecting all other lines. Meanwhile, Line 8 will connect Luohu with the Yantian district, where the city's largest container port is located. There are no timelines for the construction of lines 6 and 12, which would run entirely in Bao'an and Longgang, respectively, despite the fact that both lines are

marked on Shenzhen Metro's master planning map.

On to the PRD

¶14. (SBU) The expansion of Shenzhen's metro system will also help increase the city's connectivity with the rest of the Pearl River Delta (PRD). When expanded, Line 4 will reach Longhua Station, from which new high-speed lines are being built to Guangzhou to accommodate the new Express Rail Link (ERL) between Hong Kong and Guangzhou. The new lines are expected to be in place by 2010. There is also talk of building a spur from those lines to connect Guangzhou and Dongguan with Shenzhen Airport and Shekou.

COMMENT: The little metro that could?

¶15. (SBU) Shenzhen's metro still has a long way to go before it comes close to truly resembling Hong Kong's, but it is on the right track, at least on paper. However, the MTR's appropriation of Line 4 does merit extra attention. As Shenzhen and Hong Kong's transportation networks become more integrated, perhaps it is Hong Kong interests that will set the norms -- and the priorities. Focusing Shenzhen's transport infrastructure on border crossings will be a boon for cross-boundary trade, but it might not be as great for its development as a city. With a population that already surpasses ten million, the city cannot afford to view itself -- and be viewed by others -- as Hong Kong's appendage.

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